

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
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SIL-01 PA-02 /117 W
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R 111811Z JUL 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0113
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(JULY 5- JULY 10)

REF: BONN 11818, BONN 11354, BONN 12286

1. SUBJECTS COVERED:
ASSOCIATION OF GERMAN INDUSTRY SOMBER OVER INDUSTRY
PROSPECTS; GERMAN COMPENSATION TRADE WITH EAST BLOC
NO BURDEN AS YET; TAXES RISING FASTER THAN INCOME;
HAMBURG INSTITUTE ON GROWTH AND PRICES; FOREIGN EX-
CHANGE MARKETS (TABLE); MONEY MARKETS (TABLE);
BUNDES BANK FOREIGN POSITION; BANK LIQUIDITY; NEW
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PRESIDENT OF DIW; ITALY REPAYS BUNDES BANK CREDIT;
BOND MARKET (TABLE); FOREIGN DM BONDS; WAGES UP FIVE
PERCENT (SO FAR) IN 1978; ECONOMIC INDICATORS
PUBLISHED THIS WEEK (TABLE)

2. ASSOCIATION OF GERMAN INDUSTRY SOMBER OVER
INDUSTRY PROSPECTS

THE LATEST MONTHLY REPORT OF THE ASSOCIATION OF GERMAN INDUSTRY (BDI) DRAWS A MIXED BUT ON THE WHOLE RATHER PESSIMISTIC PICTURE OF THE STATUS OF INDUSTRIAL PRODUCTION IN THE FRG. THE REPORT OBSERVES THAT THE AUTOMOBILE AND CONSTRUCTION INDUSTRIES ARE GIVING A BOOST TO THE ECONOMY, HOWEVER, THAT MOST INDUSTRIAL BRANCHES ARE BEING SQUEEZED BY STRONGER FOREIGN COMPETITION RESULTING FROM DM APPRECIATION AND RISING GERMAN WAGE LEVELS. THE REPORT, THOUGH CONCEDING SOME STIMULUS TO ECONOMY FROM STRIKE-INDUCED PENT-UP DEMAND, CONCLUDES THAT THE THRUST FOR A SUSTAINED INDUSTRIAL UP-SWING IS LACKING.

3. GERMAN COMPENSATION TRADE WITH EAST BLOC NO BURDEN

ACCORDING TO ECONOMICS MINISTRY STATE SECRETARY GRUENER COMPENSATION TRADE BETWEEN GERMANY AND THE EAST BLOC HAS UP TO NOW POSED NO SPECIAL BURDEN FOR THE GERMAN ECONOMY ALTHOUGH PROBLEMS MAY BE ON THE HORIZON AS THE VOLUME OF SUCH TRADE INCREASED RAPIDLY IN THE 70'S AND THIS TREND APPEARS TO BE CONTINUING. IN CERTAIN INSTANCES, HE SAID, GERMAN INTERESTS ARE WELL SERVED BY COMPENSATION AGREEMENTS, SUCH AS IN THE CASE OF EXCHANGE OF GERMAN PIPE FOR NATURAL GAS DELIVERIES FROM THE USSR. HE EXPECTS THAT STATE TRADING COUNTRIES WILL INCREASINGLY ORIENT PROJECT SIZE AND THE COMPOSIT-

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ION THEIR DELIVERIES TO THE WESTERN MARKETS.

THE DIW ESTIMATES THAT 15 PERCENT OF GERMANY'S TRADE WITH THE EAST BLOC IS IN THE FORM OF COMPENSATION OF WHICH 90 PERCENT RESULTS FROM TRADE WITH POLAND AND THE SOVIET UNION. GRUENER ALSO SAID THAT THE GERMAN GOVERNMENT IS OBSERVING DEVELOPMENTS IN THIS AREA

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CLOSELY IN ORDER TO AVOID UNREASONABLE DEPENDENCE
ON DELIVERIES FROM THE EAST.

4. TAXES RISING FASTER THAN INCOME

A JUST PUBLISHED STUDY OF THE KARL BRAEGER INSTITUTE
(TAXPAYERS ASSOCIATION-FINANCED RESEARCH ORGANIZATION)
SHOWS THAT THE TAX PAYMENTS OF THE AVERAGE EARNER
INCREASED FROM 27.5 PERCENT OF HIS GROSS EARNINGS IN
1960 TO 39.4 PERCENT IN 1978. DIRECT AND INDIRECT
TAXES' SHARE OF HIS EARNINGS WILL INCREASE TO 43 PER-
CENT OF HIS INCOME IN 1982, THE INSTITUTE STUDY
PROJECTS. THE TAXPAYERS ASSOCIATION HAS TAKEN A
STRONG PUBLIC STAND IN FAVOR OF TAX RELIEF MEASURES
AND SIMPLIFICATION OF THE TAX SYSTEM.

5. HAMBURG INSTITUTE ON GROWTH AND PRICES

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ACCORDING TO NEWS REPORTS, THE HAMBURG ECONOMIC
RESEARCH INSTITUTE IS NOW FORECASTING A GNP GROWTH RATE
OF SLIGHTLY LESS THAN THREE PERCENT FOR 1978. THE
INSTITUTE DOES NOT BELIEVE IT LIKELY THAT THE TREND OF
PRICE (CPI) MODERATION OBSERVED IN PAST MONTHS WILL BE
SUSTAINED THROUGH THE SECOND HALF OF 1978. THE INSTITUTE
OBSERVES IN THIS CONNECTION THAT THE RATE OF PRICE
INCREASE DURING THE SECOND HALF OF 1977 WAS EXCEPTION-
ALLY LOW (HENCE NOT MUCH IMPROVEMENT IN THE SECOND
HALF 1978 OVER SECOND HALF 1977 RATE IS TO BE
EXPECTED) AND THAT THE PRICE MODERATING EFFECTS OF
EARLIER REAL DM DEVALUATION HAVE NOW FULLY WORKED

THEIR WAY THROUGH TO CONSUMERS.

6. FOREIGN EXCHANGE MARKETS

DURING THE REPORTING PERIOD, FRANKFURT SPOT AND FORWARD DOLLAR RATES WERE AS FOLLOWS:

	SPOT DOLLARS	FORWARD DOLLARS	(IN DM PER \$1.--)	(IN PCT. PER ANNUM)
	OPENING	FIXING	CLOSING	ONE-MONTH THREE-MONTH
JULY 5	2.0475	2.0528	2.0490	-4.5 -5.3
6	2.0545	2.0603	2.0660	-4.7 -5.1
7	2.0630	2.0641	2.0650	-5.3 -5.0
10	2.0445	2.0400	2.0400	-5.2 -5.0
11	2.0480	2.0466	N.A.	N.A.

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DEPARTMENT TREASURY

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7. MONEY MARKET:

TIGHT MONEY CONDITIONS CONTINUE, INCREASE IN REDISCOUNT

QUOTA HAVE NOT AS YET HAD THE DESIRED EFFECT OF

REDUCING MONEY RATES, SEASONAL FACTORS SUCH AS THE MINOR TAX DATE IN JULY AND AN INCREASED DEMAND FOR CASH DURING THE VACATION PERIOD MAY PUSH RATES HIGHER. FOR THE PERIOD JULY 5-10 FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

	3.50-3.55	3.60	3.70
JULY 5	3.50-3.55	3.60	3.70
6	3.50-3.55	3.60	3.70
7	3.50-3.55	3.60	3.70
10	3.50-3.60	3.60	3.70

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8. BUNDES BANK FOREIGN POSITION:

DURING THE PERIOD JUNE 24 - 30 THE BUNDES BANK'S NET FOREIGN POSITION INCREASED BY DM 0.5 BILLION TO DM 88.7 BILLION. ACCORDING TO THE BUNDES BANK, THE INCREASE REFLECTED "RATE-SMOOTHING" DOLLAR PURCHASES BY THE BUNDES BANK. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 475 MILLION WHILE SDR HOLDINGS DECLINED BY DM 25 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 50 MILLION.

9. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM 0.4 BILLION. BASIC FACTORS REDUCING LIQUIDITY WERE A SUBSTANTIAL DM 6.5 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDES BANK TO MEET JUNE RESERVE REQUIREMENTS AND A LARGE DM 4.8 BILLION INCREASE IN CURRENCY IN CIRCULATION. LIQUIDITY WAS INCREASED BY END-OF-MONTH PAYMENTS OF PUBLIC AUTHORITIES REDUCING BUNDES BANK ASSETS OF THE FEDERAL GOVERNMENT BY DM 6.1 BILLION (TO DM 3.5 BILLION) AND STATE GOVERNMENT ASSETS BY DM 3.7 BILLION (TO DM 4.3 BILLION). OTHER FACTORS, INCLUDING THE ABOVE-MENTIONED INCREASE IN THE BUNDES BANK'S FOREIGN POSITION INCREASED LIQUIDITY, NET, BY DM 1.1 BILLION.

THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY INCREASING LOMBARD BORROWINGS BY DM 1.6 BILLION. AT THE SAME TIME, THEY REDUCED NORMAL REDISCOUNT BORROWINGS BY DM 0.2 BILLION AND SPECIAL REDISCOUNT BORROWINGS BY DM 1.0 BILLION TO ZERO SINCE THE BUNDES BANK DISCONTINUED ON JUNE 19 THE SPECIAL 10-DAY REDISCOUNT FACILITY (SEE BONN 11354).

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10. NEW PRESIDENT FOR DIW:

PROF. DR. HANS-JUERGEN KRUPP WAS RECENTLY ELECTED PRESIDENT OF THE BERLIN-BASED ECONOMIC RESEARCH INSTITUTE, DIW. HE SUCCEEDS DR. KARL KOENIG AND WILL ASSUME HIS NEW POST IN THE SPRING OF 1979. DR. KRUPP IS NOW PRESIDENT OF THE UNIVERSITY OF FRANKFURT.

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11. ITALY REPAYS BUNDES BANK CREDIT:

ON JULY 5, 1978 ITALY REPAYED THE OUTSTANDING \$1 BILLION OF THE \$2 BILLION GOLD-GUARANTIED CREDIT GRANTED BY THE BUNDES BANK TO ITALY IN SEPTEMBER 1976. THE REPAYED PORTION OF THE CREDIT WAS TO HAVE COME DUE AT THE BEGINNING OF SEPTEMBER 1978.

12. BOND MARKET:

FOLLOWING AN ONE WEEK PERIOD OF PRICE STABILITY PRICES

FOR DOMESTIC BONDS WITH LONGER REMAINING MATURITIES DECLINED AGAIN. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS, BROKEN DOWN BY REMAINING MATURITY, DEVELOPED AS FOLLOWS:

REMAINING MATURITY

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(YEARS) 1 3 5 7 9 10

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JULY 9 4.25 5.55 6.00 6.30 6.50 6.55

JUNE 30 4.25 5.55 5.95 6.25 6.45 6.50

13. FOREIGN DM BONDS:

THE DM 100 MILLION LOAN OF THE JAPANESE CITY OF KOBE (SEE BONN 11818) WAS SOLD AT AN ISSUE PRICE OF 100 1/4. THIS IS, DUE TO THE GOOD CONDITIONS CURRENTLY PREVAILING ON THE MARKET FOR FOREIGN DM BONDS, SOMEWHAT HIGHER THAN THE ORIGINALLY PLANNED PRICE OF 99 1/2. THE SOUTH AFRICAN RAILWAYS AND HARBOURS (SARAH) HAS PLACED BONDS OF DM 25 MILLION (COUPON 8 PERCENT, ISSUE PRICE 99 1/2, MATURITY 5 YEARS). THE DM 30 MILLION LOAN OF THE JAPANESE FIRM RICOH WILL BE OFFERED AT A COUPON OF 5 1/4 PERCENT AND A MATURITY OF 5 YEARS. THE ISSUE PRICE WILL PROBABLY BE 99. THE DM 70 MILLION OF CONVERTIBLE BONDS OF THE SAME FIRM WILL CARRY A MATURITY OF 8 YEARS AND A COUPON OF PROBABLY 3 1/2 PERCENT. THE EUROPEAN COAL AND STEEL COMMUNITY PLANS TO PLACE PRIVATELY BONDS OF DM 70 MILLION. THE CONDITIONS ARE EXPECTED TO BE A COUPON OF 6 PERCENT, AN ISSUE PRICE OF 99 1/2 AND A MATURITY OF 12 YEARS WITH REPAYMENT TO BEGIN AFTER 4 YEARS. THE SOUTH AFRICAN CORPORATION FOR ECONOMIC DEVELOPMENT CURRENTLY PREPARES THE PRIVATE PLACEMENT OF BONDS OF DM 20 MILLION WHICH WILL CARRY A GUARANTY OF THE REPUBLIC OF SOUTH AFRICA. THE MATURITY WILL BE 4 YEARS, THE COUPON 7 3/4 PERCENT. THE ISSUE PRICE IS EXPECTED TO BE 99 1/2 TO 100. THE JAPANESE TOKYO CAR CO., LTD., YOKOHAMA, WILL PRIVATELY PLACE CONVERTIBLE BONDS OF DM 30 MILLION WITH A MATURITY OF 8 YEARS. THE COUPON IS EXPECTED TO BE 3 1/2 PERCENT.

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THE ISSUE PRICE 100.

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14. WAGES UP 5 PERCENT (SO FAR) IN 1978:
THE MINISTRY OF LABOR REPORTS THAT WAGE AND SALARY
CONTRACTS CONCLUDED IN 1978, AFFECTING 12.8 MILLION
WORKERS (APPROXIMATELY HALF OF THE EMPLOYED WORKFORCE),
AVERAGED TO AROUND A 5 PERCENT YEARLY RATE OF INCREASE.
THIS FIGURE, HOWEVER, DOES NOT INCLUDE THE VALUE OF
FRINGE BENEFITS. CONTRACTS COVERING A FURTHER 3.7
MILLION WORKERS ARE EXPECTED TO BE NEGOTIATED BEFORE
THE END OF THE YEAR. WAGE INCREASES IN 1977 AVERAGED
TO 6.4 PERCENT. AS REPORTED BY THE BUSINESS DAILY
HANDELSBLATT, WAGE INCREASES WERE LOWEST IN THE
CHEMICAL (4.3 PERCENT) AND COAL 4.35 PERCENT)
INDUSTRIES. THE HIGHEST INCREASES COME TO ABOUT 7
PERCENT.

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15. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED DATA

MARCH APRIL MAY JUNE

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CONSUMER PRICES 1/ 3.1 2.9 2.7 2.4

1/ PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL.
THE 2.5 PERCENT CHANGE FOR JUNE REPORTED IN BONN'S
12286 WAS ONLY A PRELIMINARY FIGURE.

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